



GOVERNOR'S BUDGET OVERVIEW

Overview

Governor Huntsman's focus on strengthening Utah's economy has fueled sustained growth in key areas. The State is seeing record population increases, substantial job increases, and revenue growth that is above the long-term average. During 2007, personal income growth continued to outpace the national average and unemployment fell to an all-time monthly low of 2.3 percent. Even with growth expected to moderate in 2008, Utah will continue to have one of the best economies in the nation. With this economic strength comes the ability to address pressing needs within the State, including increasing teacher compensation, reforming Utah's health system, addressing air quality concerns and energy development opportunities, and enhancing the quality of life of all Utahns.

The recommendations contained in this budget reflect a balanced approach by Governor Huntsman who continues his commitment to four key policy areas:

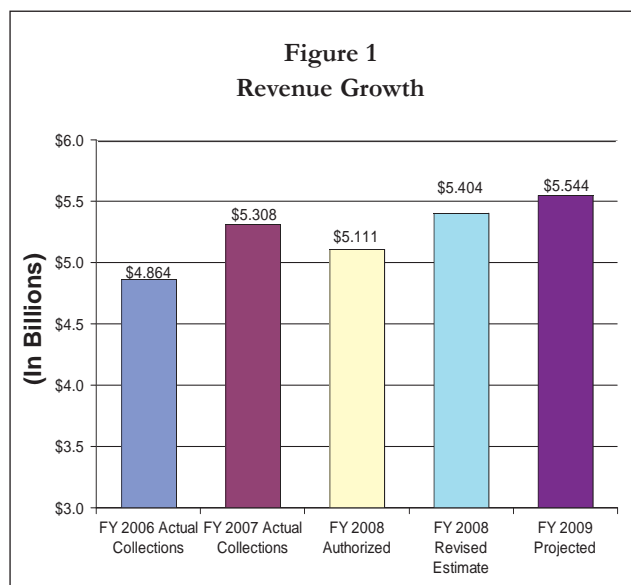
- Education
- Economic Strength
- Quality of Life
- Governance

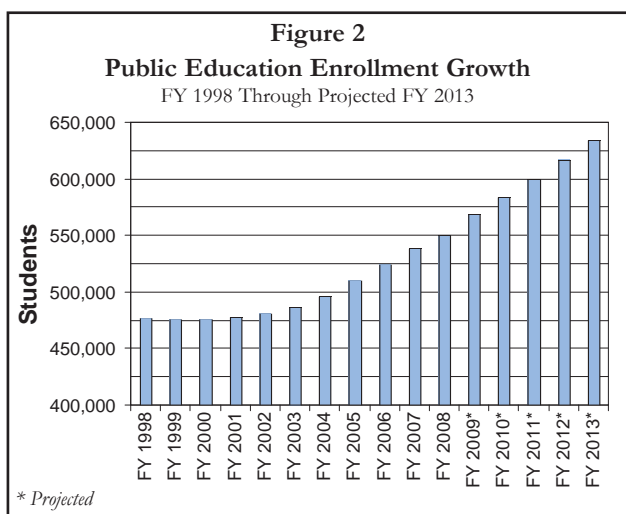
Budget increases recommended for FY 2009 and FY 2008 supplemental funds are found in the following sections: tables 1 through 5 in summary form, tables 6 through 10 by department, table 11 by fund, and the itemized tables in the department sections which include a listing of all detailed budget items.

Revenue Forecast

The Governor's Office of Planning and Budget (GOPB), the Utah Tax Commission, and the Office of the Legislative Fiscal Analyst (LFA) reached consensus on the revised revenue estimates used for FY 2008 and the new revenues for FY 2009 contained within the Governor's budget.

Revised revenue forecasts for the General Fund and Education Fund for FY 2008 are \$291.6 million more than authorized during the 2007 legislative session. Revenue estimates for the FY 2009 budget are \$430.9 million above the FY 2008 authorized amount.





Education

Governor Huntsman continues his strong support of Utah's public and higher education programs with a \$5.0 billion budget, including \$497.6 million in new funding. With 12,880 new students expected to enroll in the public school system in FY 2009, the Governor is recommending \$58 million ongoing Uniform School Fund (USF) to cover this growth. In order to retain and attract quality teachers, Governor Huntsman is recommending \$171.3 million ongoing USF, a 7.0 percent Weighted Pupil Unit (WPU) increase. This increase will help raise our teachers' salaries closer to the national average. To extend resources to students with the greatest educational need, the Governor recommends \$3.5 million for adolescent literacy, \$2.7 million for higher cost special education children, and \$275,000 for heritage languages.

In addition to the WPU increase, the Governor is recommending \$23 million ongoing and \$41.5 million one-time GF/USF to maximize human resources, facilities, and student learning opportunities. The ongoing funding includes: \$11 million for extended instruction in math and science, establishing a Science, Technology, Engineering, and Mathematics (STEM) program, and Utah Science Technology and Research (USTAR) high schools; \$1.0 million for the Public Education Job Enhancement Program; \$500,000 for rewarding outstanding school leaders; \$6.0 million for recruitment and retention of

teachers; \$4.0 million for comprehensive guidance counselors; and \$500,000 for minority Math, Engineering, and Science Achievement (MESA). The one-time funding includes: \$20 million for recruitment and retention of teachers; \$10 million for additional capital facility funding for districts experiencing significant enrollment growth; \$10 million for classroom materials and supplies; and \$1.5 million for library instructional materials.

Governor Huntsman is also recommending the second phase of a three-year effort to fund school transportation at an 85 percent state funding level with an additional \$4.5 million ongoing and \$3.5 million one-time USF. This balanced funding approach will address current critical issues and provide educational and economic benefits for the future of all Utahns.

In an additional effort to overcome the growing teacher shortage throughout the State, the Governor recommends \$5.7 million ongoing General Fund to allow higher education institutions to expand teacher-education programs. The Governor also recommends \$2.0 million for the Engineering and Computer Science Initiative, already in place at institutions of higher education, to produce the engineers and technical graduates Utah businesses need to meet increasing market demands. Continued support of these initiatives will have lasting effects on the State's economy. Additionally, by including \$4.4 million in funding for student aid and scholarship programs, Governor Huntsman is making it easier for students to pay for and graduate from college.

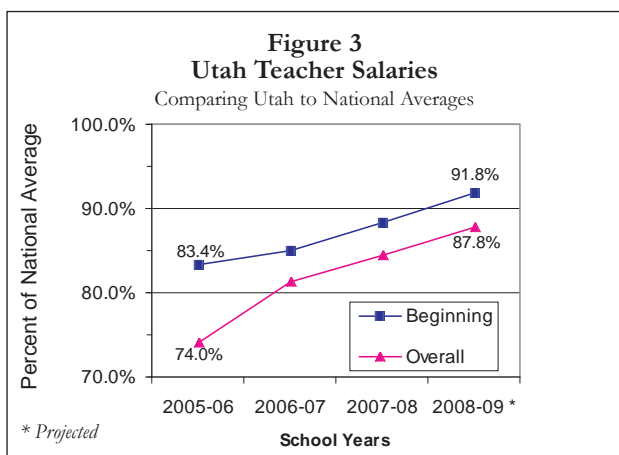
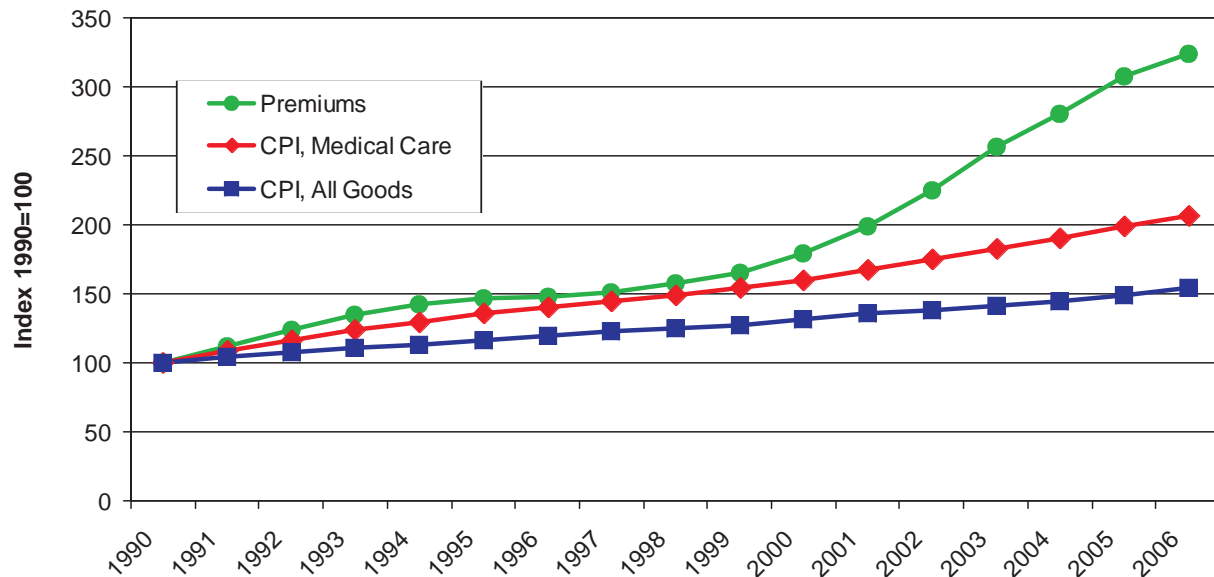


Figure 4
Health Care Prices Are Increasing Faster than Inflation

Indexed Premiums* and the Consumer Price Index 1990 - 2006, 1990=100



*Average annual premiums for a family of four, from Annual Kaiser Employee Benefits Studies; premiums prior to 1999 are imputed.

Source: Bureau of Labor Statistics & Kaiser Family Foundation

Economic Strength

Health System Reform

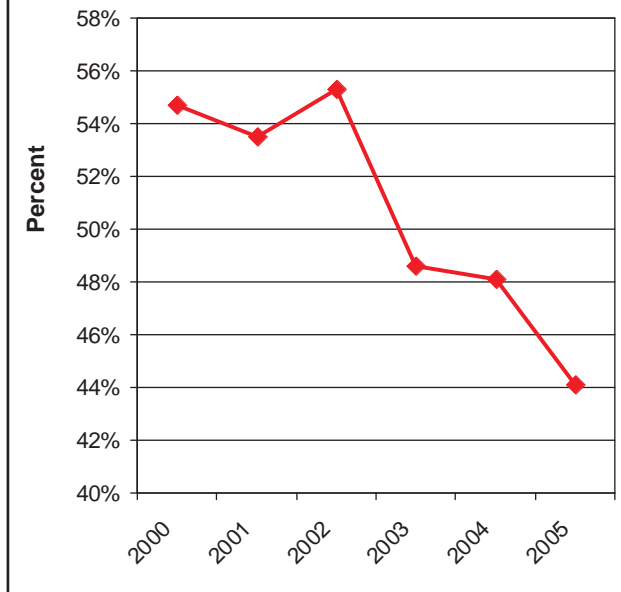
Governor Huntsman is making a strong commitment to the well-being and quality of life of Utahns and to the economic development of the State through health system reform. Healthcare costs have dramatically increased to levels unaffordable to many. Over the past 10 years, average annual family health insurance premiums in Utah have more than doubled from \$5,660 to an estimated \$11,500. During this same period, average annual pay increased only 41 percent. The substantial increases in healthcare costs have forced many employers to discontinue offering insurance coverage. The percentage of Utah private-sector establishments offering health insurance benefits to their employees has declined from 55 percent in 1996 to 44 percent in 2005. The combination of rising costs and fewer employers offering health insurance has contributed to an expansion in the number of Utahns who are uninsured. Between 2001 and 2006, the percent of the population without

insurance rose from 8.7 percent (199,100 people) to 11.9 percent (306,500 people).

The Governor is working with legislative leadership and a broad base of stakeholders to develop a comprehensive proposal for reform based on the principles of controlling costs, increasing access to quality healthcare, and encouraging wellness.

As part of a systemic reform, Utah's healthcare system must take advantage of the benefits of technology. The Governor recommends \$615,000 to develop and implement a statewide database to capture and report the costs and outcomes associated with healthcare. These data will allow consumers to make informed decisions regarding their healthcare. In addition, the Governor recommends \$500,000 to develop the infrastructure needed to allow hospitals, doctors, and other healthcare providers to share electronic medical information in an effort to deliver healthcare more efficiently and effectively. He also recommends \$5.0 million ongoing General Fund to expand enrollment at the University of Utah School of Medicine.

Figure 5
Percent of Private-Sector Firms Offering Health Benefits in Utah (Calendar Years)



Source: Agency for Healthcare Research

Because of Medicaid's low reimbursement rates, many providers cannot afford to treat Medicaid patients. While this leaves many Medicaid enrollees covered, many are unable to access the medical attention they need. To address this access issue, the Governor recommends increasing Medicaid provider rates with \$18 million General Fund.

Governor Huntsman is setting aside \$30 million ongoing General Fund for FY 2010 to work with the Legislature to develop comprehensive health system reform in Utah.

Quality of Life

Air Quality and Energy Development

Governor Huntsman is dedicated to improving air quality in Utah. In response to tighter federal air quality standards, Governor Huntsman recommends \$2.5 million to help the Division of Air Quality monitor and improve air quality in Utah. Mercury is a growing issue in Utah, and Governor Huntsman is

supporting the purchase and operation of new air mercury monitoring equipment. The Governor is recommending state building energy efficiency improvements using \$1.0 million ongoing and \$1.5 million one-time General Fund and \$1.0 million ongoing and \$1.5 million one-time Education Fund. Additionally, the Governor is directing the Division of Fleet Operations to purchase hybrid vehicles and is recommending an increased capital outlay authorization of \$2.4 million for low-emission vehicles.

To increase energy development, Governor Huntsman recommends \$5.0 million to expand USTAR efforts.

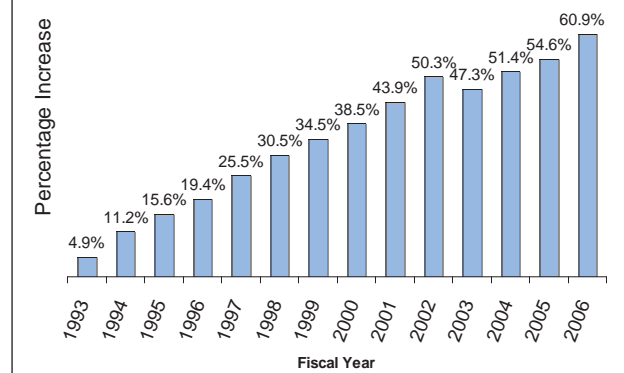
Transportation

A strong commitment is being made to Utah's transportation future with a total \$1.5 billion budget, including \$220 million in new money for construction projects. Preventing gridlock now and improving our roads are critical.

Governor Huntsman recommends \$80 million to relieve congestion on Utah roads through smaller choke point or safety projects, and \$40 million for large congestion-relief projects.

Also, \$70 million has been recommended to address critical needs in Utah's bridge infrastructure, as well as \$30 million for corridor preservation acquisitions to meet the demands of Utah's rapidly

Figure 6
Cumulative Increases in Utah Vehicle Miles Traveled



growing population. With the escalating prices of real estate in Utah, this investment will ultimately save the State millions of dollars in construction costs.

Land Use and Open Space

In an effort to maintain Utah's quality of life, the Governor recommends \$2.5 million supplemental General Fund in FY 2008 and \$1.0 million ongoing General Fund in FY 2009 to enable the State to respond to natural disaster emergencies and assist with the stabilization and restoration of impaired grazing and critical watershed areas. The funding will also be used to proactively address challenges with invasive weed species.

The Governor recommends \$2.0 million one-time General Fund for the LeRay McCallister open space fund to conserve and restore lands. He is also recommending \$300,000 ongoing General Fund for statewide planning activities and local planning grants. In addition, \$10 million has been dedicated to the Severance Tax Account for other critical land use projects.

Buildings

With healthy revenues, the State is in a position to address critical needs in our capital infrastructure. The Governor recommends \$217 million one-time General Fund in FY 2009 to pay for the following capital projects:

Governor Huntsman's Recommendations for Large Capital Projects

Gunnison prison expansion	\$77,340,000
Salt Lake govt. office building #1	51,500,000
State hospital bldg. consolidation	51,510,000
Ogden veterans' nursing home	19,658,000
Parks and Recreation capital dev.	12,000,000
Armory facilities upgrades	5,000,000
Total	\$217,008,000

Governance

Utah Performance Elevated Initiative

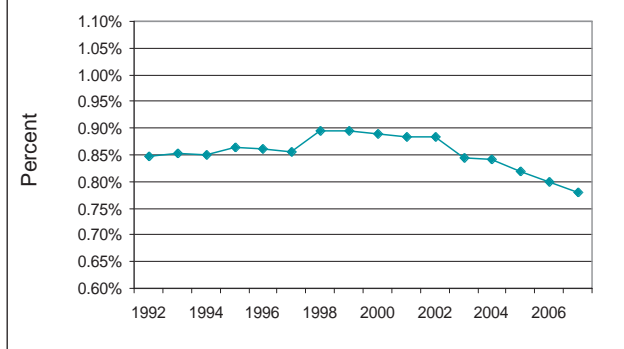
In 2006, Governor Huntsman announced a strategic public-private partnership between GOPB and the Utah Policy Partnership to improve efficiency in government. He directed agencies to implement the Balanced Scorecard, a management tool using specific metrics to measure performance. By the end of FY 2007, every state agency under the Governor's purview had implemented the Balanced Scorecard.

The use of the Balanced Scorecard fostered a culture of quality governance that has led to the Utah Performance Elevated Initiative. Current projects of the initiative include: quarterly meetings between state agencies and the Governor's senior staff; a guide on performance management recently published by GOPB; and a website detailing state agency performance, found at <http://performance.utah.gov>. GOPB is also working in conjunction with the LFA and the State Auditor's Office in order to create a system that ensures the initiative is carried out in the most efficient manner.

Compensation

Governor Huntsman recognizes the invaluable role of public servants, and as such, recommends \$18.5 million for a 3.0 percent cost-of-living increase in state employee compensation. Another \$12.3 million has been set aside for discretionary salary increases in order for executive directors to address compression problems and to reward excelling employees. The Governor recommends \$5.2 million for market comparability adjustments to address benchmarks and related job ranges that are below 75 percent of market. He also wants to address the rising cost of benefits for state employees with a \$10.8 million benefit package. A compensation increase for higher education employees is comparable to that of state employees. In addition, the Governor recommends holding the growth in government, as measured by additional full-time employees, to less than half the rate of the State's population growth.

Figure 7
Ratio of State Employees to State Population



information concerning Utah's economy and its outlook may be found in the *2008 Economic Report to the Governor* (available January 2008).

Utah's economic growth remained strong in 2007. This trend is expected to moderate due to a softening national economy. The Utah economy, however, will continue to rank among the best in the nation in 2008. The State's 4.5 percent annual increase in employment, from 2007 over 2006, outperformed national employment growth of 1.3 percent for this same period. The Utah economy will continue to progress throughout 2008 with forecasted employment growth of 3.2 percent.

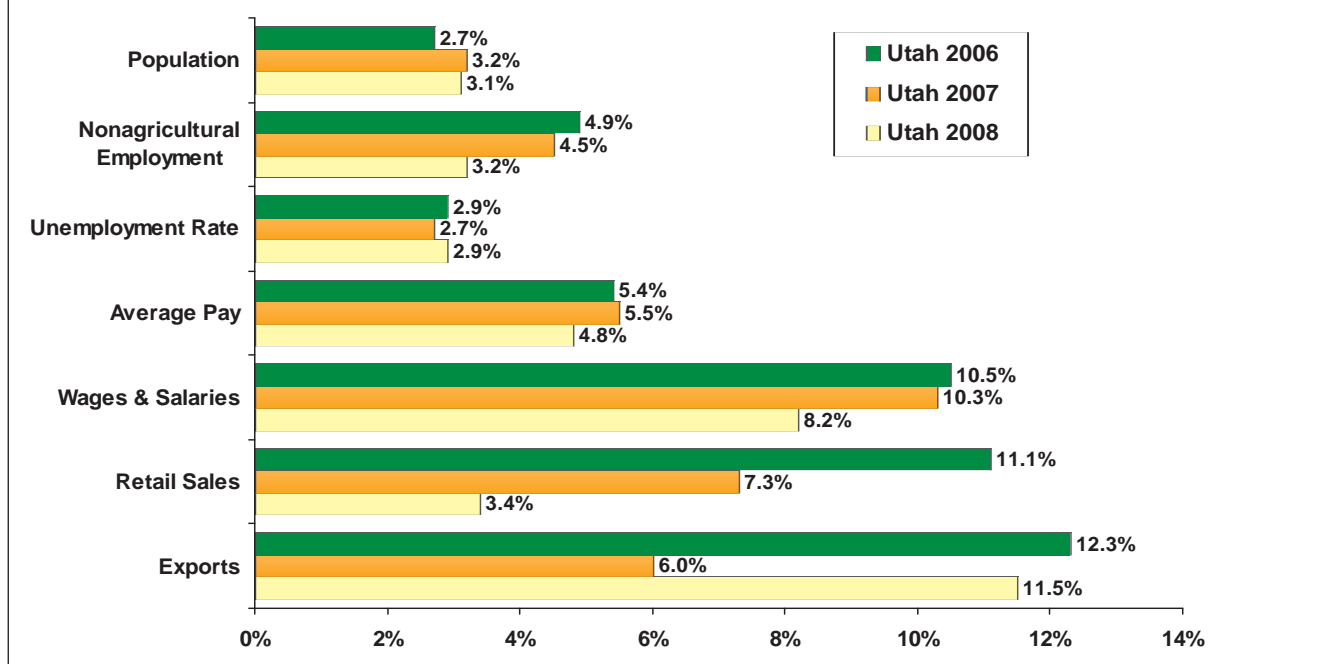
Economic Forecasts

The Revenue Assumptions Committee determined the basic assumptions that led to the Governor's revenue forecasts. Members of the council represent GOPB, LFA, the Tax Commission, the University of Utah, UTA, Salt Lake City, private consultants, and various state agencies. Detailed

Figure 8 shows projected growth in economic indicators for Utah. The figure also shows estimated unemployment rates. These data are for the calendar years 2006 through 2008.

Population. According to the Utah Population Estimates Committee, Utah's population reached

Figure 8
Utah Economic Indicators: 2006-2008



Source: Council of Economic Advisor's Revenue Assumptions Committee

2.7 million in 2007 and is forecasted to increase by 3.1 percent in 2008. Comparatively, the national population will grow at a rate of 0.9 percent in 2008. Utah experienced net in-migration of approximately 44,252 people in 2007 and demographers project net in-migration of 41,200 individuals in 2008.

Employment. Utah nonagricultural employment is projected to grow 3.2 percent in 2008, continuing with a 2.0 percent employment increase in 2009. Concurrently, national employment is estimated to grow by 0.8 and 1.2 percentage points in 2008 and 2009, respectively. Economists forecast Utah's 2008 unemployment rate to be approximately 2.9 percent, up from 2.7 percent in 2007, while the national 2008 unemployment rate is projected to be 5.0 percent. The State unemployment rate for 2009 is forecasted to increase by 0.2 percent.

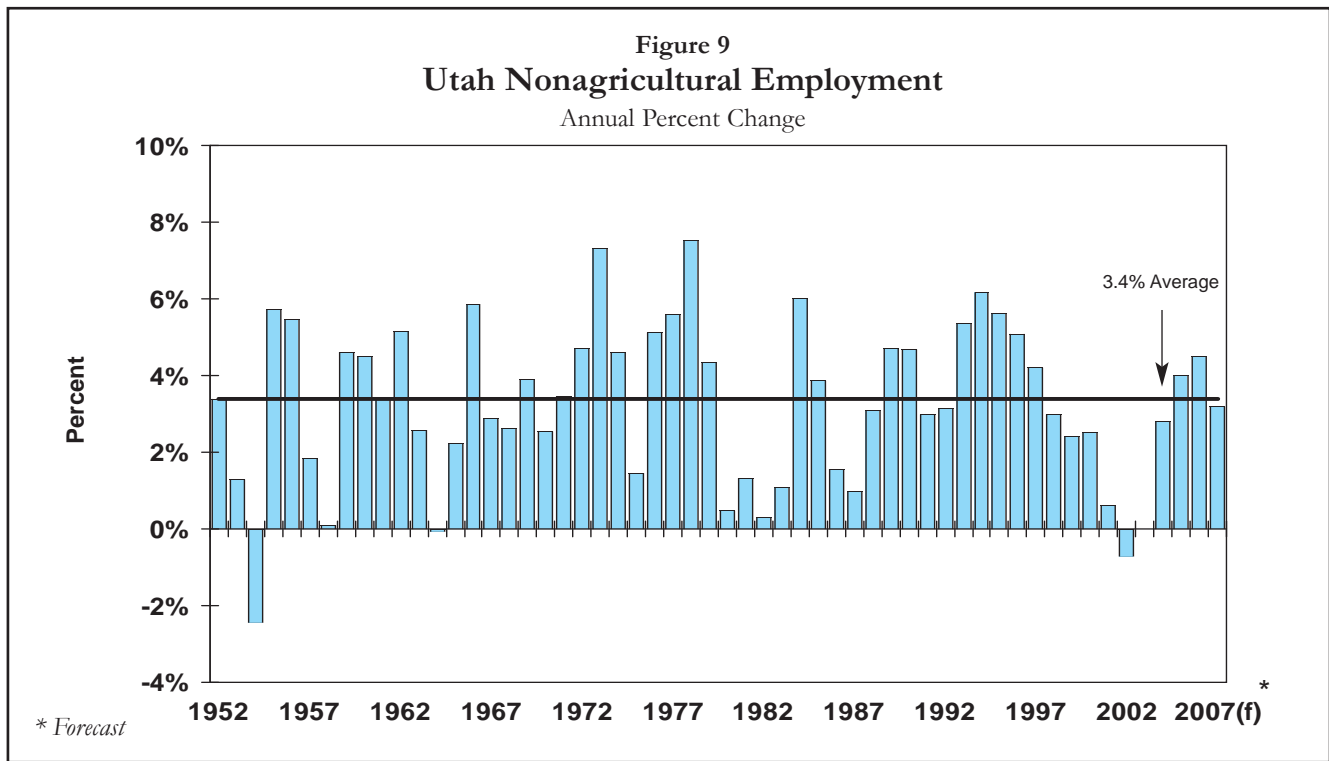
Personal Income. The annual personal income of Utahns is forecasted to grow by 7.8 percent in 2008. By comparison, the national annual personal income

will increase approximately 4.9 percent in 2008.

Utah's estimated aggregate annual personal income for 2007 was \$83.2 billion, up from \$75.9 billion in 2006.

Showing signs of improvement, the average annual pay in Utah was \$36,500 in 2007 with 2008 projections at \$38,300, a 5.5 and 4.8 percent increase in average annual pay for 2007 and 2008, respectively. Utahns' average pay was lower than the national average of \$44,500 in 2007.

Retail Sales. Utah's retail sales were \$26.4 billion in 2007, up by approximately \$1.8 billion from 2006 actual expenditures. Economists project a 3.4 percent increase in retail sales in 2008 and a 6.1 percent increase in 2009. National retail sales, by contrast, are estimated to increase by 3.2 percent in 2008 and 3.1 percent in 2009.



Source: Utah Department of Workforce Services

Appropriations Limit

Section 63-38c-201 through 205, UCA, limits how much the State can spend from unrestricted General Fund sources and from non-Uniform School Fund income tax revenues. The limit allows state spending to increase relative to population and inflation increases. The budget recommendations for both FY 2008 and FY 2009 are within the limit.

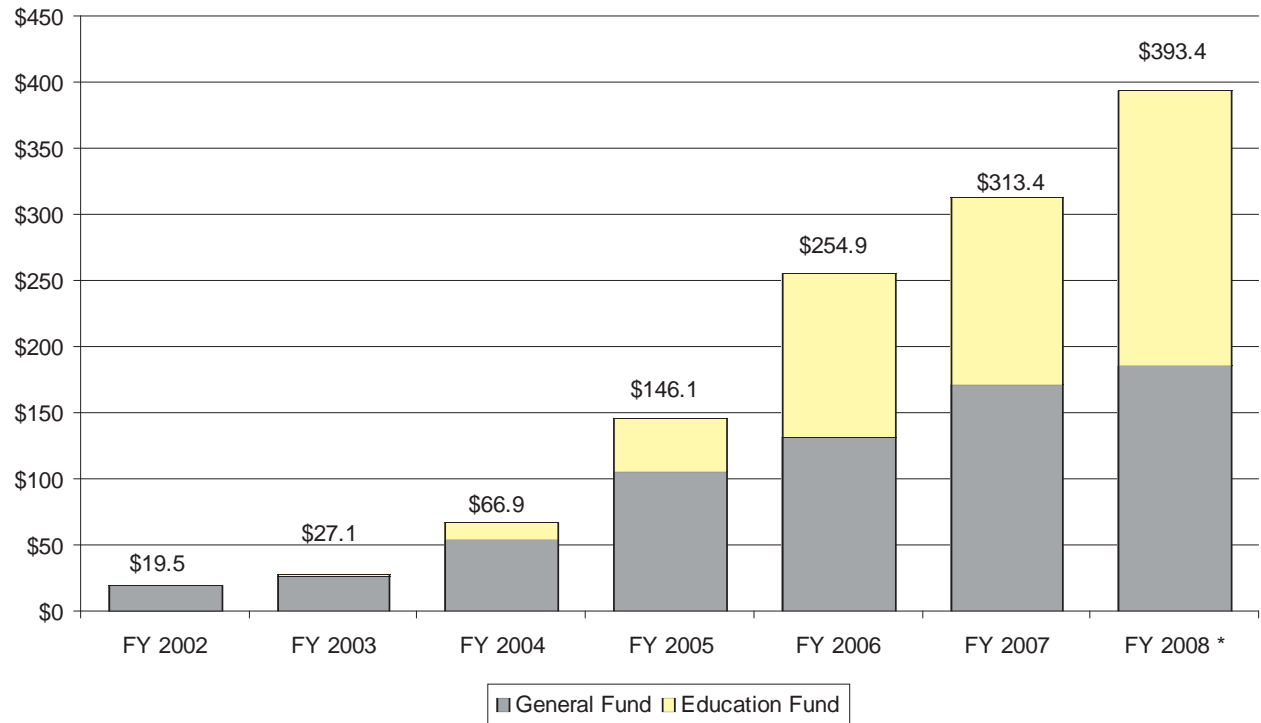
Budget Reserve Fund and Education Budget Reserve Fund

For additional budget stabilization, the State maintains the Budget Reserve Fund (Rainy Day Fund). The Rainy Day Fund was created within the General Fund by the 1986 Legislature, pursuant to House Bill 13, *Surplus Revenue Trusts Fund* (Walker, O.). The 2003 Legislature, pursuant to House Bill 27,

Budget Reserve Account Amendments (Buttars, C.), created the Education Budget Reserve Fund. These funds can only be used to cover operating deficits, retroactive tax funds, and settlement agreements approved by the Legislature.

Governor Huntsman recommends \$40 million be added to these funds, bringing the combined balance of the Rainy Day Fund and the Budget Reserve Fund to \$393.4 million. (See figure 10 on page 9.)

Figure 10
State of Utah Reserve Funds - Historic Balances
General Fund and Education Fund
(in Millions)



* Reflects the Governor's recommendation to add \$15 million General Fund and \$25 million Education Fund in FY 2008

Figure 11
WHERE STATE DOLLARS COME FROM
 General Fund and Education Fund: FY 2009

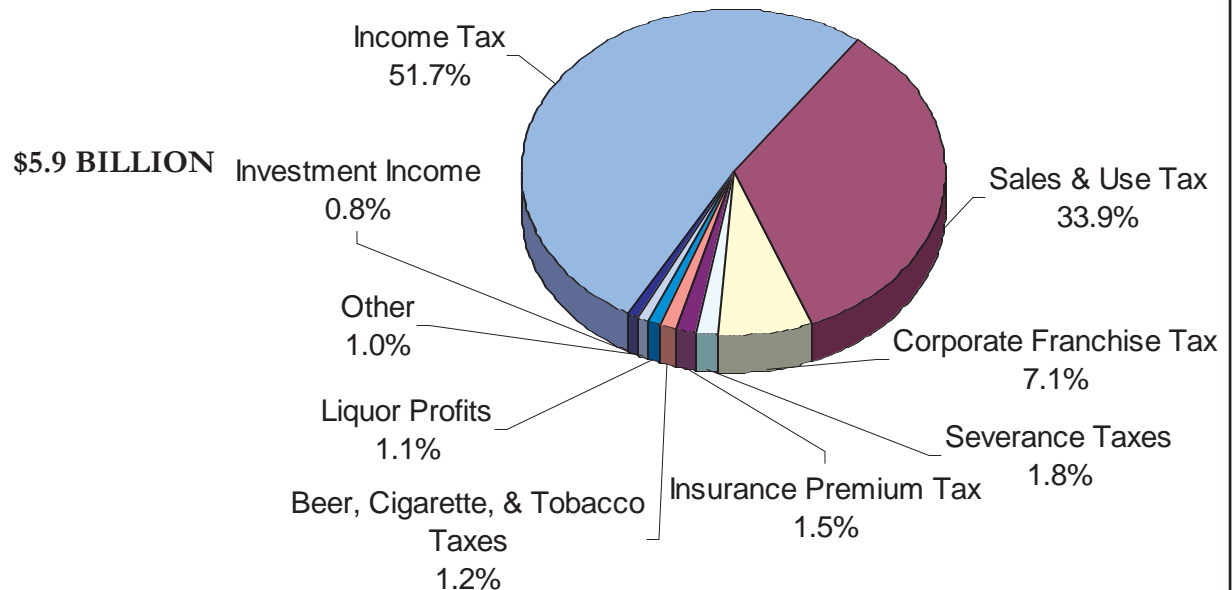


Figure 11 shows the estimated sources of state revenue (General Fund and Education Fund) for FY 2009.

Figure 12
WHERE STATE DOLLARS GO
 General Fund and Education Fund: FY 2009

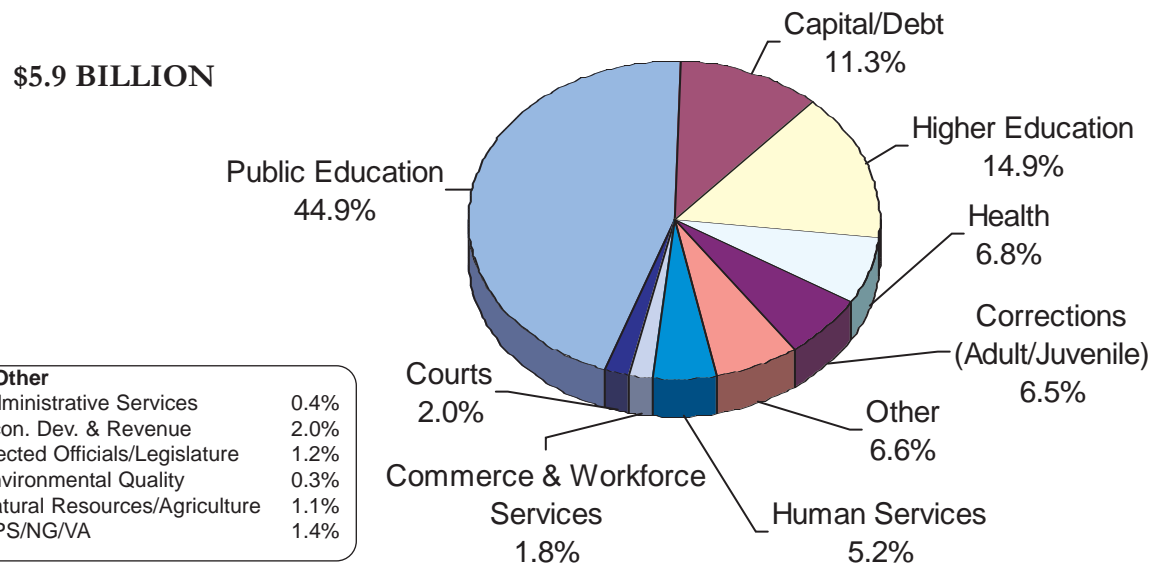


Figure 12 shows how state funds (General Fund and Education Fund) will be expended in FY 2009.
 The largest portion, amounting to 59.8 percent, goes to Public and Higher Education.

Figure 13
WHERE ALL FUNDS COME FROM

All Sources of Funding: FY 2009

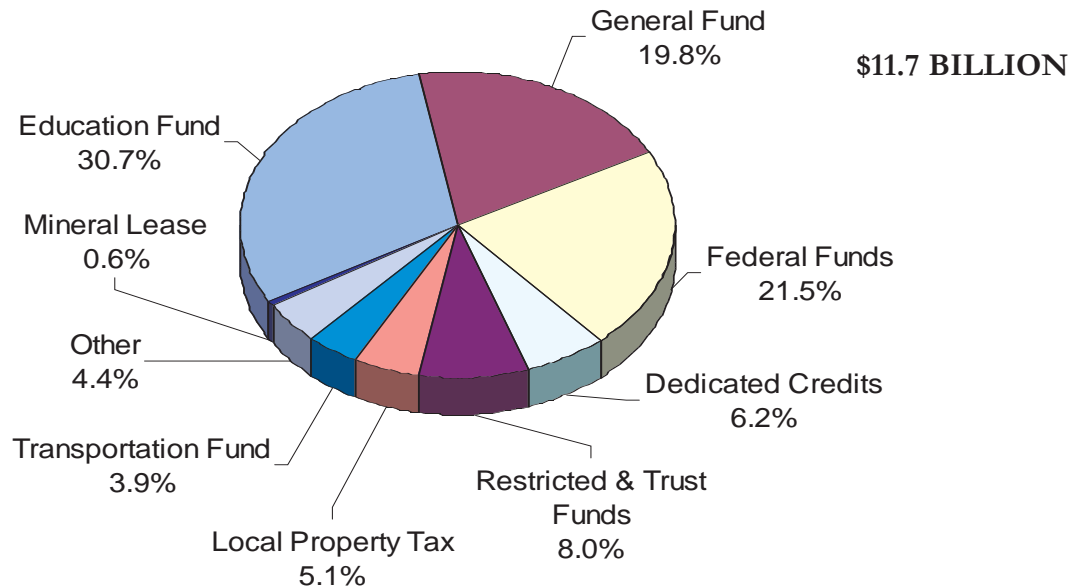


Figure 13 shows the total estimated sources of revenue for the FY 2009 budget. The General Fund and Education Fund, consisting primarily of sales and income taxes respectively, generate just over one-half (50.5 percent) of the total state budget.

Figure 14
WHERE ALL FUNDS GO

All Sources of Funding: FY 2009

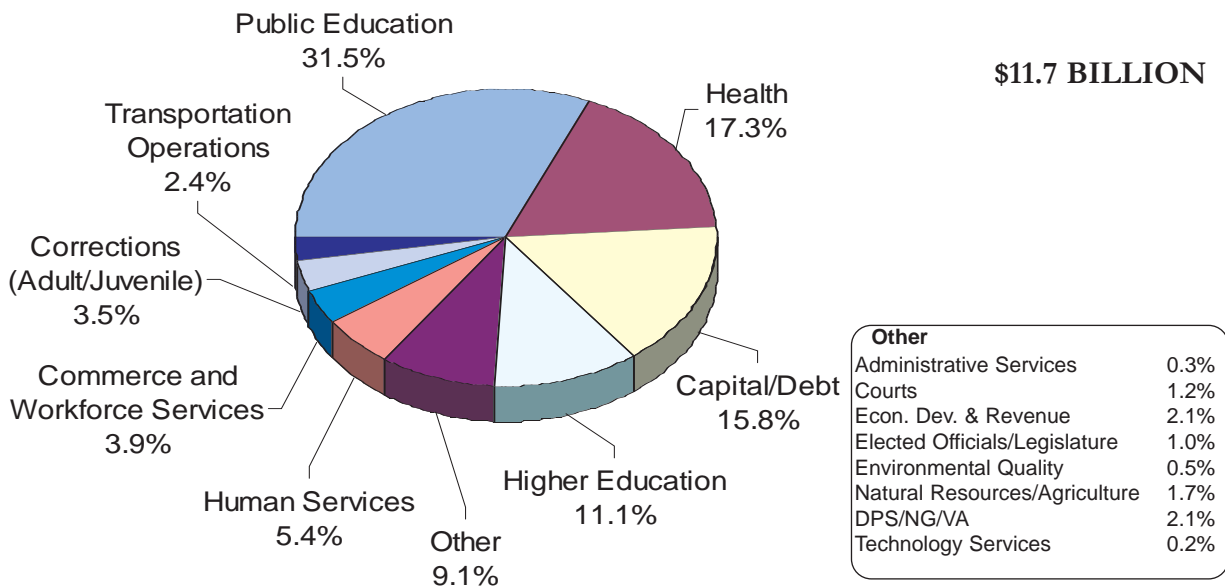


Figure 14 shows total budget expenditures for FY 2009 from all sources of funding.